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East Europe Report

ECONOMIC AND INDUSTRIAL AFFAIRS



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EAST EUROPE REPORT

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CONTINUED EXPANSION OF CEMA INTEGRATION DISCUSSED

Budapest VALOSAG in Hungarian No 12, Dec 83 pp 2-16

[Article by Laszlo Csaba, research fellow, Hungarian Academy of Sciences Research Institute for the World Economy: "Reform and Pragmatism. Further Development of CEMA Integration"]

[Text] After the second oil price shock of 1979, when the world economy found itself in a particularly difficult situation, cooperation within CEMA became more difficult as well. All this neither warrants nor necessitates that on this occasion I add to the already extensive literature extolling the achievements of cooperation. In the following I wish to sum up several timely questions of CEMA cooperation, but without any claim to completeness. The increasing frequency with which the need of reviewing the entire present concept of CEMA's international division of labor is being raised, before both political and scientific forums, lends special emphasis to this topic. First of all because the Soviet Union's ability to supply certain fuels and raw materials has encountered objective limits. Secondly, because the deterioration of East-West relations compels "common sense," so to speak. And finally, because the experience of the 1970's indicates that the individual countries' solutions in both economic policy and macroeconomic management should be coordinated, according to the proposals, on a much wider front than up to now; i.e., it would be expedient to submit to international coordination a much wider circle of questions that previously each country decided independently [1].

Already before the beginning of the new era in the socialist world economy, it was pointed out in the literature that not only did the socialist countries "encounter events which could not have been foreseen with the present tools available to science," but "in many respects the socialist countries have failed to ensure deliberateness even of their mutual relations, and the plan-conforming development of their relations" [2].

This phenomenon has become even more pronounced in the 1980's, especially in the persistence of duplications in development. For nearly 15 years after the Comprehensive Program's adoption, CEMA remained a "physical" planning integration that comprised a series of bilateral relations and disregarded the value processes. In the 1980's, the fourth parallel wave of industrial development has begun, and coordination of the paths of development has been slow, and occasionally perfunctory, even in areas singled out for joint programs, such as electronics. The monetary system's backwardness obviously plays the

decisive role in this. For the fact that the efficiency of a proposed variant calling for the curtailment of production can never be demonstrated in a way acceptable to everyone ties in with this backwardness. More importantly, the growing uncertainty of deliveries ties in with it as well, and this directly affects the production process, limiting from the very outset international cooperation in the production of subassemblies and parts. For such cooperation can be based only on entirely reliable supplier-customer relations. Since it may be assumed that the necessary comprehensive reform of the mechanism of international cooperation--in other words, of the methods of management--will not take place in the 1980's, and since not even the aforementioned formulations that urge changing the entire concept of CEMA cooperation want such a comprehensive reform (and would be satisfied with changes within the traditional framework), the efforts of national economic planning to protect itself in the medium term against the uncertainties of international supplier relations by developing its own capacities are both understandable and proper.

Changes in the Real Conditions of the 1980's

Already in the first phase of coordinating the plans for the 1986-1990 period it is evident that significant changes will occur in CEMA cooperation's traditional starting position, which still applied in 1976-1980: the volume of foreign trade in the appropriate preceding plan period was regarded as the base, and actual bargaining began only on the extent and conditions of the increases. In 1981-1985 this was no longer the case, especially not in trade between the smaller CEMA countries, and protracted negotiations were held especially on the conditions of offsetting the declining volumes of energy sources and raw materials. The point is no longer the offsetting of deliveries with commodities of suitable hardness. Instead, the important, traditional commodities that earlier were more or less readily available or are increasingly becoming obtainable only in exchange for their physical equivalents within the same commodity group (olefin for olefin) or even the same commodity item (metallurgical coke for brown-coal briquet). For the 1986-1990 period, moreover, the requirement of sharing investment costs has been formulated even for maintaining the level of basic-material deliveries [3], while the quantities and scheduling of the coordinated deliveries, and with increasing frequency also their quality, remain uncertain.

All this indicates that two characteristics of CEMA cooperation during the 1970's have basically changed. At that time, protection against changes in the world economy and a stabilizing role within the framework of such protection, and getting loss-making enterprises "back on their feet" were two characteristic advantages of CEMA cooperation that were regarded as very important [4]. Hungarian national economic planners felt then that the ensuring of a market and of raw materials for the central development programs shaping the growth of industry--in other words, the "substantiation" of these programs in the sense of a balance in physical terms--was the basic factor [5] that demonstrated the most perceptibly the advantageous nature of CEMA relations.

By the 1980's, a basic change occurred in these two areas. Getting loss-making enterprises "back on their feet" in the mid-1970's did not win very much the international market's value judgment. Moreover, the CEMA market itself played a very big role in this reconstruction, but--for objective reasons--it too does

not value highly the results of economic development after 1975, for it is becoming less and less willing to give raw materials and energy sources in exchange for these results. Soviet economists characterize this phenomenon as a structural limit of the present model of CEMA cooperation, one "that cannot be resolved simply by increasing the Soviet Union's deliveries" [6]. The point is that an inward-turning, import-substituting development policy becomes impossible primarily from the side of CEMA because the partners are no longer interested in maintaining the division-of-labor model under which raw materials are exchanged for finished products. This is where the drawbacks of an industrial policy pursuing regional import substitution are the most pronounced, and the necessity of orienting on export becomes the most obvious. Not merely for reasons of "secure supply and a secure market," but also on the basis of the market's direct value judgment, the following is becoming increasingly clear: the general experience with the theory of integration [7], according to which the traditional economic logic of Friedrich List is turned around at the beginning of the new era in the world economy, applies to CEMA as well, perhaps more so than in general. The "training ground" where new industries and products grow up, gain strength and become able to hold their own in the world market is no longer the protected national or perhaps regional market, but the other way around. The numerous limitations of turning inward prove that only the opposite strategy is able to provide a way out. For it is hardly debatable that for products competitive in the world market also our CEMA partners will gladly supply similar products; and if not for such products, then certainly for the hard currency we earn by exporting competitive products. Thus it becomes perceptible and an everyday practical reality that the attainment of competitiveness in the world market is a prerequisite for efficient participation in CEMA cooperation, and not conversely as this is often stated out of habit and with an earlier period's picture of the world economy in mind.

The processes outlined above evolved with full force already by the mid-1970's. The National Planning Office's spokesman pointed out already before the close of the 1976-1980 plans' coordination that, among other things, the growing procurement difficulties and the spreading practice of offsetting deliveries within an ever-narrower list of products were strongly curtailing a basic advantage of the international division of labor: that the countries were able to obtain from import, through export specialization, the natural resources that they could extract at home only unfavorably [8]. The past decade's development policy in not one CEMA country is characterized fairly unambiguously by the paradox that performance is not being appreciated specifically by the market to whose requirements--i.e., apparent and perfunctory requirements--production tried to adjust. And on the other hand, it is typical also of CEMA's present overcentralized cooperation mechanism that it stated requirements and preferences that were not in accord with the real processes taking place within the member nations' national economies; instead of compelling adjustment to the new conditions, this mechanism provided a greenhouse for deferring adjustment.

Some economist perceive this as an advantage, reasoning that CEMA cooperation and its associated policy of protectionism have made it possible to avoid directly "burdening" the population with the shocks of the world economy, and have kept entire industries in East Europe from being swept into crises. This reasoning was at least defensible, but not uncontested, for a time after the

first oil price shock. Protectionist solutions should not also lead in principle to unsuccessful practice. The loss-reimbursing subsidies and similar "pain relievers" that national governments and regional international institutions are providing for the industries and enterprises lagging behind in the world market's competition are temporary symptomatic treatment that in principle is intended to better prepare these industries and enterprises for hard times. But in practice--similarly to the experience of the Western and developing countries [9]--the various protectionist subsidies have a very strong tendency to become permanent in the CEMA countries as well. The interests associated with them often succeed in converting into very long "transitions" of the order of a decade (actually, in perpetuating) the benefits that in principle are provided short term. This is increasingly true when the financial grants and market protection are not tied at the very beginning to a specified time limit, with their automatic reduction. In this case the shortage market that intensifies as a result of the import restrictions, and the accompanying mechanisms of plan bargaining and regulator bargaining practically guarantee that producers will retain their advantageous position. In other words, it was practically unavoidable--especially in the CEMA economies, which are not functioning in a competitive climate--that the protectionist measures would be used to delay adjustment. The cumulative financial and social costs of delayed adjustment truly exceed the tolerable level in some instances, causing self-induced processes that act in the direction of increasing the lag behind the world economy. The very reason why the policy of opening up the economy, "the policy of change and of changing" [10], encounters such great difficulties is that in the countries of East Europe these self-induced processes have already started after the mid-1970's; they automatically lead in the other direction even without central initiatives or, more accurately, even when radical action to change economic policy is neglected; or they may arise entirely independently of the given objectives, merely as a result of the daily improvisations, as evident also from the institutionalization of import restrictions. But then: "Those 'practical people' who believe themselves to be free of any intellectual influence usually are the slaves of some long departed economist Few of the people in economics or political science are influenced by new theories once they have reached the age of 25 or 30. Therefore the ideas that public officials and politicians, or even agitators, apply to current events are unlikely to be the most recent" [11]. And this is dangerous particularly at the beginning of a new era when the trends of the preceding period cease; and also during recessions when, in the absence of longer-term strategy, practice responding in the the short₂ term to superficial manifestations can lead to a worsening of the situation.²

It seems impossible to elaborate proposals that fit into the logic of our present, unreformed, regional international cooperation, offer a radical solution to our problems and result in long-term movement toward recovery. In outlining the "target model" of CEMA integration, therefore, it is quite certain that we must start out from the requirements of tomorrow, and not from the basic principles and functioning of the present international mechanism or from compatibility with this mechanism. At the same time, if a qualitative reform of cooperation cannot be expected in the 1980's, then it is necessary to elaborate also partial corrections which can be implemented even within the framework of the existing international mechanism, in full awareness of the fact that these

partial corrections are not substitute for a comprehensive reform but may in themselves produce some improvement in certain partial questions. Such improvement should not be dismissed lightly, especially not in the present difficult situation. In the following, therefore, it will be expedient to start out from the assumption that the gradual and mutual opening up of East Europe's national markets will hardly occur, at least not during the next decade, no matter how beneficial this would be [12]. Starting out from the requirements of competitiveness in the world market, on the other hand, the concept of regional international cooperation that enhances such competitiveness might be mutually acceptable also at the CEMA level, with the understanding that CEMA cooperation can be made efficient by increasing the individual CEMA countries' competitiveness in the world market. This formulation anticipates that the individual countries of East Europe will retain their macroeconomic management solutions which will change at different rates and in different directions, and it regards as an internal affair what method each country regards as the most effective for improving its competitiveness in the world market.

26th CPSU Congress Updates the Comprehensive Program

The "great policy questions" of CEMA integration gained renewed emphasis in the wake of the initiatives of the 26th CPSU Congress, held in 1981. For in the preceding decade, the adoption of the Comprehensive Program in 1971 had ended debate on this topic at the political level. But the program itself, of course, was a nonhomogeneous document that contained numerous contradictions and ambiguities in terms of both content and form, considering the importance of the questions contained in it and the degree of their elaboration. At that time Tibor Kiss justifiably pointed out that "the Comprehensive Program contains numerous tasks whose solution is already in progress, but also several problems whose elaboration it only provides for, because they belong among the exceptionally important and extremely complicated problems of integration,"³ which applied primarily to the circle of questions concerning the international market's activation. "In the interest of perfecting the methods of foreign trade, agreement was reached on making the quota system more flexible, but only to a very modest extent. The differences of opinion on trade without quotas can be summed up in that the representatives of some of the member nations regard this merely as a very minor supplementary form because it cannot be reconciled with their planned economies or can be fitted into them only with great difficulty" [13]. Besides this contradiction, which can be demonstrated on numerous other points of the program as well, a significant drawback of the document is something that the assessments at that time regarded as one of its main advantages: that "it contains specific cooperational tasks." For example, many of the customary results of coordinating the 1971-1975 national economic plans also are listed together with the questions of policy. Thus the CEMA principles of respect for national sovereignty and of rejecting regional isolation are listed together with various zootechnical and operational tasks. This diversity of content itself may be regarded as a substitute for progress on policy. Such traditional but fundamental tenets as state sovereignty, openness, the coordination of planning, and the primacy of the state's foreign-trade monopoly had been laid down for the most part also in a similar joint program adopted in 1962, among the basic principles of the socialist international division of labor.⁵

In retrospect, therefore, it is really hard to understand the optimism with which the Hungarian literature on CEMA welcomed the Comprehensive Program's adoption. The author quoted above expressed a fairly common contemporary conviction when he wrote that, in his opinion, the Comprehensive Program was not a final timetable for integration, merely its beginning that would have to be updated continuously. "We must regard the Comprehensive Program as a minimal program for the realization of CEMA integration. But this is also a process within which we must achieve constant progress in perfecting CEMA integration's system of instruments." This approach survives even today, and it has been formulated by many other authors as well, both for partial areas of integration and CEMA integration as a whole. But it was not in accord even then with the changes in the CEMA countries' systems of macroeconomic management, which already were unfolding in the direction of centralization and were made somewhat illusory by the persistence of economic policies aiming for quantitative growth, and of bilateralism in planning and trade, as before. The point in question was not that specifically other economic measures were needed to convert CEMA into an East European Common Market in a strictly economic sense; nor that once such a concept gained general acceptance, its political implementation would have required economic-policy and management measures other than the ones outlined in detail in the work quoted above and in other writings of that time [12]. The problem was that in the 1970's the economic program actually lacked political reality.⁶ This fact is reflected also in the general quality of the economic literature on CEMA: it can be readily demonstrated, especially in terms of volume, that the writings on this range of subjects, with the exception of one or two more significant works, consisted predominantly of repeating the contents of the Comprehensive Program and of the subsequent CEMA sessions' documents, instead of comparing different versions of the theoretical solutions to the economic questions of the debates on cooperation, and to the new problems raised by the changing situation. Another portion of the published works merely strived to clarify "theoretically" the differences of opinion on immediate foreign-trade interests, and on the international redistribution of national incomes.

In consequence of what has been said above, and independently of the contemporary views and their assessment in retrospect, the Comprehensive Program unquestionably represented the end, not the beginning, of a process: of efforts at the CEMA mechanism's market reform. In Yuriy Shiryayev's apt formulation [14], "As a result of the Comprehensive Program's adoption and implementation, the concept that regards market relations as a part (in other words, as a subsystem or ancillary--L. Cs.) of the plan-conforming economic mechanism gained acceptance as the dominant concept and won the strongest practical and scientific substantiation, as opposed to the concept that recognizes the functioning of two, relatively independent mechanisms: the plan mechanism, and the market mechanism (the mixed or 'plan and market' concept)." This program warrants the view that "the price mechanism and monetary mechanism that evolve within socialist cooperation cannot be regarded as parallel mechanisms that are independent of the coordination of economic strategies, but as instruments of management that guide and implement in practice cooperation on economic strategies" [15]. But this is exactly what the regulated market economy, formulated by the reforms of the 1960's as the target model, would assume; namely that the economic processes (self-motions) guided by normative financial regulators

function also as society's checks to test whether or not the national economic plan is realistic.

A direct consequence of the concept of cooperation outlined in the Comprehensive Program, and actually realized in the 1970's, was that the program's trade liberalization and monetization measures, which had not been recommended very forcefully to begin with (actually they had not been excluded entirely), were unable to gain ground; instead, there developed the increasing demonetization of CEMA cooperation which, as we have seen above, had not been sufficiently monetary even in the 1960's. It was in political response to the resulting contradictions, and to the worsening of East-West relations toward the end of the decade, that the 26th CPSU Congress again placed on the agenda certain progressive policy objectives of the Comprehensive Program. In criticism of the practice of cooperation during the 1970's, the congress formulated the following requirements: to coordinate economic policies within CEMA, to bring the national economic mechanisms structurally closer to one another, and to develop direct international relations between enterprises, associations, institutions and central agencies in the individual countries. The congress proposed a CEMA summit meeting to elaborate the ways of realizing these objectives.

Because this initiative was conceived at the political level, it of course was able to employ only general formulas that lent themselves to several different interpretations. This fact was reflected not only in the numerous conflicts of national economic interests and the diversity of views, but also in the length of time required to prepare the summit meeting (unquestionably warranted, considering its agenda).

What was actually the meaning of raising anew these three objectives of the Comprehensive Program? The idea that the coordination of national economic plans must be supplemented by the coordination of national economic policies in their entirety is directed against the shortcoming of the 1970's, and of the 1981-1985 period as well, that coordination of the medium-range national economic plans has narrowed 95 percent into bargaining over the quantities and assortment of the mutual deliveries. This leaves relatively little room for the theoretical advantage that the countries with planned economies are able to mutually agree on the better coordination of their national structural policies and thus can avoid becoming one another's major competitors, besides the developing countries, in Western markets.

A part of this assessment is to examine whether this idea, unlike the Comprehensive Program's preparation, was accompanied by a theoretical and ideological offensive contending that the national economic framework was obsolete. To the contrary, the idea of raising anew the Comprehensive Program's mentioned three objectives was accompanied by statements recognizing that the national economic framework was permanent, and even supporting it. Speaking of the coordination of the socialist countries' foreign policies, IZVESTIYA points out that the purpose of such coordination "is to let the fraternal countries help one another to assert their national interests in the international arena, and thereby to enhance their prestige." The process by which the socialist countries are coming to resemble one another more closely is in progress, "but naturally this will not obliterate the national peculiarities, the fraternal countries' historically evolved specific characteristics Nothing can be farther

from reality than the picture of a monolithic socialist community" [16]. In other words, the Soviet standpoint remained valid that had been advocated very forcefully during several preceding years: that "the socialist countries' cooperation under the present conditions will not obliterate within the foreseeable future the framework of the national economic complexes"; moreover, in definite contrast with the capitalist world where multinational corporations are "breaking through" national boundaries, while in Western Europe "the executive organs of the EEC are attempting to broaden arbitrarily their supranational nature, the positive experience gained in solving the problems of statehood within the framework of the CEMA countries' integration is of immense international importance" [17]. And a spokesman of the Federal Planning Office in Czechoslovakia emphasized that "participation in the coordination of national economic plans must be subordinated to the objectives of national economic policy" [18].

In this context, what does the coordination of economic policies in their entirety, over and above the economic-policy consultations and the coordination of the national economic plans (i.e., over and above the previous practice), mean? According to the most extreme view (or aspiration), the coordination of economic policies must cover the entire process of reproduction, from research to trade [19]. Soviet sources wish to extend primarily to structural policy and external economic strategy the coordination already achieved on questions of foreign policy, defense and cooperation in planning, mainly because they find that in the 1970's CEMA became too dependent on the West [20]. Together with several other authors, Bogomolov [21] too believes that the purpose of coordination should be technological and economic "independence," increase of the share of CEMA trade, better-balanced trade, and the establishment of mutually complementary industrial structures instead of the present duplications, especially in the chemical industry, metallurgy and engineering. On the one hand he finds that the entire system of nonsocialist relations belongs among the areas that are "ripe for coordination"; but on the other hand he states that "within CEMA the programs for the development of cooperation in production and R & D must obviously aim for the expansion of export to Western countries. This is one of the prerequisites for reducing foreign indebtedness in hard currency." It is interesting that although Bogomolov discusses the subject in greater detail, this idea is not included in his work listed in the bibliography. But in agreement with the authors quoted earlier, and with the Soviet speech at the Berlin (1983) session of CEMA, he attaches great importance to demonstrating the dangers and vulnerability of relations with the West that, in his opinion, have become unreliable, and he also urges a review of the strategy of borrowing and the adoption of a unified policy on imports. He believes that the more closely coordinated, the more successful will be both the national economic policies and the national macroeconomic management systems of the CEMA countries. The coordination of investment, R & D, structural, and external economic policies is desirable, but he finds: "Today, of course, it is not yet possible to determine with sufficient certainty what nature this activity will assume." Other authors [22] emphasize that the objective limits of Soviet fuel and raw-material exports must be regarded as initial conditions, and the principal direction of national economic policies must be to let the CEMA countries find a suitable joint answer (based on their own R & D and resources) to the situation arising in this manner, through the more efficient utilization of

national raw-material resources, energy-conservation measures, and coordinated structural changes. Implicitly contesting this standpoint, others [23] emphasize that the subject matter of the development projects' coordination is not the national economy's entire investment fund, and that coordination does not extend, either now or in the more distant future, to the balance-like coordination of the long-range developmental concepts' indicators; on the other hand, progress toward a unified regional socioeconomic complex is possible. Within this complex they regard as possible and desirable the elaboration of a rational planning scheme that would channel the international location of the productive forces toward the CEMA community's optimum.

Thus although these concepts differ from one another in their systems of implementing instruments and in defining what questions are to be coordinated, moreover even in detailing the motives for closer coordination, they do agree in wanting to institutionalize coordination that far exceeds the planning and economic-policy coordination which has evolved within CEMA during the past 35 years. They propose doing this in part extensively, by including questions that previously were not coordinated or were only topics for consultation (primarily the question of developmental objectives, and the question of relations with non-CEMA countries). And in part intensively, by reinforcing the obligatory nature of individual CEMA agreements. The manner in which these concepts have been advanced, their level, and the forums before which they have been presented do not allow us to dismiss them with a wave of our hand as "building castles in the air." And what certain Western authors [24] believe, that these aspirations were included in the text of the jointly approved Comprehensive Program and are now being merely restated, is likewise out of question.

The proposals fit into the two-decade-old process, the essence of which is twofold: On the one hand, in accord with the developments in the real economy, the conditions of trade are becoming more difficult for the small countries of East Europe (for example, the requirement to share investment costs at higher product prices, the efforts to artificially eliminate the balance-of-payments deficit at worsening terms of trade, etc.). On the other hand, as a projection of the internal logic of the macroeconomic management system in most of the member nations, attempts are being made to remedy the difficulties of international cooperation through increased centralization and by reinforcing the command-directed nature of the economy. Another noteworthy feature is the attempt to present as a new strategy a general direction that during the past two decades has been typical of CEMA cooperation at the level of its aspirations (if not typical of the real processes as well): the plans to jointly eliminate or substantially reduce Western import regarded as undesirable, overall or in individual branches of the national economy (raw-material sector, agriculture, or engineering). We should also seriously consider whether it might be more expedient, from the viewpoint both of the individual countries and CEMA as a whole, to face the fact that in the 1970's the strategy of import substitution did not reduce but increased our "dependence," at the national and the regional level as well [25]. Indeed, only competitiveness in the world market, and a system of mutual interests based on such competitiveness can serve as the foundation of interdependence that replaces one-sided dependence. This is the most certain way in which CEMA can achieve the real strategic objective that the debated proposals, I believe, are approaching the wrong way, i.e., the objective

of replacing with a system of mutual and balanced relations a certain one-sided vulnerability to the development of international trade. The coordination of national economic policies, based on the aspect of competitiveness in the world market and in the interest of a common export orientation, would represent a break with the past decade's practical solutions and set of values, but could serve more effectively the common policy objectives, i.e., the ability of the individual member nations and of the CEMA region as a whole to stand their ground more successfully in the intensifying competition in the world economy. A part of assessing both concepts' feasibility and sets of conditions is also the realization that the relationship which the practice of past decades has comprehensively proved still remains valid, i.e., that the prospects of coordinating structural policies in practice are slim without a convertible-currency mechanism and a mutually agreed barter system. This of course does not remove the question from the agenda because, amidst the intensifying competition to adjust internationally, the smaller CEMA countries of East Europe in particular have a primary interest in macroeconomic coordination that can enable them to avoid or reduce any duplication, at least in new industries such as electronics, the instrument industry, pharmaceutical industry, etc. In any event it provides food for thought that also the late Josef Tauchmann, the leading Czech Marxist theoretician who regarded a regional strategy of joint structural change as an urgent task and even generalized it theoretically, pointed out that the national economic end results of the international division of labor could not be determined under the present mechanism of cooperation, and that the instruments for such a regional solution also were lacking, particularly the criteria of international efficiency and international optimum that could be linked to the long-range plan [26]. But without this, the feasibility of implementing even technologically warranted coordination seems doubtful. And what has been said about the coordination of structural policies applies, with the respective differences having been considered, also to the "coordination" of external economic policies.

The other range of ideas that the 26th CPSU Congress raised concerned bringing the economic mechanisms structurally closer to one another. In the debates at the time of the Comprehensive Program's elaboration and also thereafter, the supporters of these questions were primarily Hungarian authors, and economists from other CEMA countries who regarded as desirable the monetization of CEMA cooperation. The idea of "an approach from new principles" stemmed from the fact that the planned-economy mechanisms introduced on the model of the Soviet macroeconomic management solutions were similar in their principle of operation and construction, but this similarity manifested itself to a large extent specifically in the mechanisms' autarchic nature that overshadowed the aspect of international cooperation [27]. This is why the Hungarian authors urged harmonization of the economic mechanisms, and within them primarily of the financial systems, pricing methods, and the principles of linking foreign and domestic prices; for without this it is impossible to create a viable financial system for economic integration.

But the role of money is determined by the type of economic mechanism, and it is even a kind of condensed expression of this mechanism. Therefore--ruling out the approach of a gradual transformation or "fermentation effect" that many authors have already disproved from different points of view--international economic measures of this kind in several countries presuppose reform decisions

based on conceptually similar principles. Otherwise the situation will persist, truly "as a natural consequence," that even the mechanism elements of the same name, or formally of identical design, will radically differ in their content and, as a result of their different functions, will differ in importance and trigger different real processes within the macroeconomic management systems in the individual countries.

In the Soviet Union the idea of bringing the economic mechanisms structurally closer to one another was raised in a different sense, for the economic standpoint of the 26th CPSU Congress was not in the Hungarian economic mechanism's intellectual orbit. The raising of this issue was linked to the important new idea that the exchange of experience between CEMA countries should be two-way, instead of one-way as before. The Soviet Union has the most experience with economic planning, yet the experience of the other socialist countries is taken into consideration when the Soviet economic system is being modified; it wants to use the proven elements, after their experimental verification. This idea was confirmed also by the November 1982 session of the CPSU Central Committee. Speaking of macroeconomic management, Yu. V. Andropov noted: "Naturally, I do not have ready recipes for the solution of these questions" [28].

What does bringing the economic mechanisms closer to one another mean according to this concept? Several different typical views on this have been outlined in the literature.

According to one approach, the basis of bringing the economic mechanisms structurally closer to one another is the application of common "law-conforming" macroeconomic management solutions that stem from the peculiarities of socialist production relations, with special emphasis on the limiting role of particular national solutions differing from these common solutions. Bautina and Shiryayev can be mentioned as advocates of this approach. In their opinion, "the economic mechanism's national character has its objective limits that are determined by the new social system itself"; furthermore, "the view held by some economists that profit-and-loss accounting should replace *khozraschet* cannot be endorsed because the economic mechanism must ensure also the reproduction of the socialist production relations," therefore "experience cannot be exchanged on just any economic solutions, independently of the basic principles of their content" [29].

Bogomolov likewise sees one of the shortcomings of the 1970's in that the parts of the reforms directly affecting the development of integration were not coordinated and remain uncoordinated even now. Study of the reforms must be followed by their joint evaluation, on the basis of which the individual countries can decide what to utilize of one another's experience [1].

Another approach starts out from the proposition that the essence of developed socialism is a changeover from administrative to economic instruments. It holds that a basic element in the harmonization of economic policies is the development of international market relations, within the framework of which the principal task in bringing the economic mechanisms structurally closer to one another is the elaboration of a "target model" of integration. The Czech economist Rasmich [30] expounds this view in greatest detail. He points out that this model is not identical with the presently functioning, real macroeconomic

management system in any of the socialist countries. Consequently, the other countries would not be bringing their models closer to that of a given country, rather a jointly constructed model would serve as a guide for the elaboration of national solutions. Besides establishing the conditions for independent enterprise decisions, another essential feature of the model is that the matters on which governmental organs adopt special decisions regarding international cooperation must become exceptions to the rules, and CEMA trade develops predominantly in accordance with the enterprises' economic self-interest. Naturally, this presupposes also the monetization of the national economic mechanisms, and the final abandonment of the autarchic thinking of the 1930's that still haunts socialist economics.

According to yet another school of thought, the principal direction of bringing the economic mechanisms closer to one another is the increased application of economic instruments. According to this line of reasoning, the continued maintenance of a narrowing circle of mandatory indicators means that the independence of the economic organs--primarily of the large intermediate managing organs, not of the enterprise--is already increasing in practice, and this relieves the planning organs of having to concern themselves with numerous minor details. This view is not only more moderate than the preceding one, but it also leads to a mostly different set of practical consequences for regulation and management. Its advocates, the coauthors Knyazev and Bakovetskiy [31], believe that in most CEMA countries considerable harmonization has already been achieved in recent years in planning, and even in the system of organizations. It is noteworthy that they have not omitted Hungary--quite rightly, in my opinion¹⁰--from their line of reasoning. They point out the similarity between the nationwide large enterprises in Hungary and the sectoral monopoly organizations in the other CEMA countries; the organizational linkage between foreign and domestic prices and between production and foreign trade; the general and limitedly growing role of small businesses not only in the service and agricultural sectors, but even in the introduction of technological innovations, etc. They also point out, again justifiably, that since in practice the employed value indicators and economic instruments failed to suitably increase the efficiency of export and to protect the domestic market, direct government control of foreign trade has increased in every East European country. The coauthors emphasize: we must not strive to unify the economic mechanism's entire system or even its individual elements, rather the essential thing is that the orientation of macroeconomic management must be directed toward solving the specific tasks determined by the requirements of intensive development, and toward the intensification of economic integration. In my opinion, this approach contains the most elements of a realistic forecast, and primarily it outlines the most tangibly the specific content of the economic mechanisms' structural harmonization that will become feasible in the 1980's. By reviewing the historical and logical development of the individual CEMA countries' present economic models, and by analyzing the details of regulation, the changes in the methods of planning and the more important modifications affecting the system of institutions and the system of enterprise organization, it can be demonstrated unambiguously that the increasingly more pronounced diversity of national macroeconomic management systems that developed--due to historical reasons, national peculiarities, real economic processes and ideological processes--since the

1950's will not cease even in the 1980's because the causes of this diversity have not ceased. Elucidation of this question would far exceed this essay's frame of reference. However, the striking differences in the conclusions of authors who are close to the official views of various CEMA countries seem to indirectly confirm this hypothesis.¹²

Another idea that is widely being discussed in the CEMA countries' literature in the wake of the 26th CPSU Congress is the institutionalization of direct relations between the member nations' central agencies, institutions and enterprises. Direct relations are the subject on which the most misunderstandings have arisen in the domestic professional literature, even at the time of the Comprehensive Program. Janos Szita [32], for example, then felt that the main emphasis within this form of relations was on cooperation between enterprises because there had already been direct contact between central agencies and research institutes. He believed that this was a change of fundamental importance "because this concept is beginning to make a generally valid distinction between public agencies and economic organs, and thereby is beginning to recognize that economic activity within these two categories develops according to different rules." The author formulates here an unquestionably correct economic relationship--or more accurately, an economic requirement--as an accomplished fact, in accordance with a frequent characteristic of that period. But the essence of the drive to merge enterprises, which began in the early 1970's and spread during that decade, was the possibly complete liquidation of the independent enterprise level, and the intermediate managing organs that were formed became independent primarily in relation to their own enterprises and not the industrial ministries (the right to reallocate capital, command planning, control of plan fulfillment, bonuses, etc.) [33]. And the association falls more under the category of public agency than under the enterprise category, and therefore also its system of international relations develops according to different rules. Even when a foreign-trade enterprise is merged into a large organization, the relationship it establishes as a member enterprise with the member enterprise of a foreign trust will not be an "interenterprise" relationship because its vital element, microeconomic initiative, is lacking. Moreover, the economic laws of most CEMA countries strongly limit the circle of economic units that may establish external relations, and the trends toward the demonetization of cooperation make the practical support of such initiatives less and less possible, even if economic policy favors them.¹²

Influential authors of the Soviet side, which has raised this idea anew, emphasize that they want to develop not interenterprise relations but relations between enterprises, central agencies and associations, in various combinations. Such relations could play a role in the exchange of experience in planning and the organization of production, and--within the coordination of planning--in the elaboration of proposals for scientific and technical cooperation. Bakovetskiy and Grinev regard explicitly direct relations between branch ministries and national organs as the progressive mode of developing cooperation [34]. Oleynik includes among direct relations also the exchange of experience between local public and party organizations, and the customary exchange of visits between enterprises; in sum, he has in mind the exchange in this way of proven industrial-management methods that do not affect the entire economic mechanism, i.e., the methods in question can be employed under any system of macroeconomic management (penalties, the tightening of energy-consumption norms, etc.) [35].

Considering the absence of efficiency criteria to ensure the soundness of local decisions (in the final outcome, the absence of conditions for the functions of convertible currency), it is easy to see that the expansion of the branch ministries' direct role would result--especially under the present circumstances--in an international plan-bargaining process that would seriously affect national economic equilibrium [36]. Therefore, the central planning organ of none of the CEMA countries is in a position to support this type of direct relations, or even to tolerate it above the technically indispensable level in the elaboration of substantive questions.

Sometimes the ideas advanced regarding direct relations are far removed from reality. Thus the idea that direct relations could lend substance to the ten-year specialization agreements (concluded on the basis of a technical development concept elaborated jointly for a period covering two or three five-year plans), in such a way that the CEMA prices attained here would directly affect the financial results of the industrial enterprises [37]. On the basis of what we have discussed above it is obvious that every element of the proposed subject is divorced from reality, and that seemingly the most progressive interpretations are the most unrealistic ones (for example, the effect of CEMA prices on the production enterprises' results).

Thus there is no question of integration's point of main effort shifting "increasingly" to the microeconomic sphere. The deputy chief of the CPSU Central Committee's International Department clearly states: "However, direct relations between the production associations and enterprises of different countries are intended not to replace, but to supplement cooperation among the CEMA countries' macroeconomic managing organs. Within the framework of joint planning, such direct relations will be established under the supervision of the central planning organs and the ministries of foreign trade" [38]. This is evident also from the Soviet regulations. A 1981 resolution of the Soviet government states that a branch ministry may authorize the establishment of direct relations "for the realization of the state plan's targets, respectively for the solution of operational questions in conjunction with the fulfillment of existing international agreements or with the exchange of experience, in the interest of expanding production cooperation, utilizing production capacity more efficiently, and broadening the assortment of commodity trade" [34]. Thus it is obvious that under this form of relations the Soviet authors are not even thinking--and justifiably so under the present conditions--of enterprise initiative that immediately comes to the Hungarian economists' mind; or if they are, then they are assigning it only a supplementary, plan-exceeding role. This is evident from the fact that Soviet enterprises, according to the aforementioned government resolution, may establish new intersectoral cooperations only at the expense of their material allocations from the sector, and only in a closed construction.

Practical Possibilities of Further Progress: Conditions and Limits

From the preceding it follows that certain changes offering also short-term advantages can be produced in CEMA cooperation's present set of instruments primarily by perfecting the coordination of planning. The present practice is characterized by a relatively wide gap between the formal possibilities and their substantive content.

This is clearly evident in the contradiction between the traditionally very strong efforts to coordinate structural policy and their modest results, although these efforts are helped considerably by the existence of joint institutions and rules. Relatively inadequate knowledge of the partner countries' situation, the fragmentary and superficial nature of the volume of information that can be gained from the economy's press coverage under information policies that differ by countries and periods, and also the confusing of the agitator and the informative aspects and reports all play a role in this contradiction. Agreements between socialist countries not only screen out, with more or less success, reports that are biased or offend national sensibilities and can be interpreted as interference in one another's internal affairs, but they inadvertently also contribute toward the relatively backwardness of research into the socialist world economy. The resulting losses of information, and especially of analysis and overview, can be compensated only partially by the information that can be gained through various official channels and processes. Therefore it is difficult, especially in the preparatory stage where meaningful economic analysis is needed the most, to realistically assess a partner country's situation, and to separate in due time and with due thoroughness the plans, proposals, hopes and aspirations from the realities.

This has undesirable consequences especially when, in contrast with the preceding period, the economic equilibrium of the given countries and the problems in conjunction with offsetting and efficiency do not permit the unlimited assertion of the traditional, turnover-centered, narrow aspects of trade policy that wants to expand trade at all cost. The organizational and institutional system of the coordination of planning has not changed in comparison with the period of dynamic and extensive growth, when as a rule it was possible to treat more liberally the aspects of efficiency, equivalence and balance, or the "value side" in general. Now when the previously neglected aspects are becoming the dominant, it is anachronistic that coordination actually remains insensitive to these aspects because it thinks in terms of tons, meters and kilowatt-hours, with costs being of secondary importance.

The variability of the world economy's conditions, and now those of CEMA's as well, has converted planning and thinking in several variants from theory to practice in the national planning of more and more member nations. Due to the demonetization of the integration mechanism, however, the theoretically much criticized one-sided commercial nature of the coordination of national economic plans has increased rather than declined. This is necessarily so because demonetization is shifting more and more of the microeconomic decisions to the higher level. This is not simply a question of asserting the central organs' much-vaunted broader overview, but of assuming out of necessity tasks that originally were microeconomic, at the expense of national economic planning's real, specific macroeconomic functions. And if the planning organ is tied down with the microeconomic functions' basic tasks, then it hardly has any time and energy left for the elaboration of alternative macroeconomic variants of cooperation. It is obvious, moreover, that the task of concluding business deals must be as detailed and specific as possible, whereas alternative planning requires wider departure from the existing, the mapping of the unusual, unexpected but predictable possibilities, and even "giving free rein to fantasy" within certain limits. This is a problem not only of mentality, but of organization as well: under alternative planning, especially in value terms

which is desirable in principle, it is expedient to employ relatively less advance commitment so as not to lose the ability to adjust flexibly and to maneuver continuously. Under the present circumstances, however, it is expedient to employ as much advance commitment as possible, to elaborate in the greatest detail and to lay down in as detailed agreements as possible the multiple interdependent system of deliveries and counterdeliveries, so as to minimize the uncertainty of the deliveries and to achieve equivalence of trade even in the absence of real money.

At present, the conditions of cooperation are becoming more rigid and also less certain, necessarily at the same time. It is obvious that their trends are in conflict also with a national management and planning practice that is more open, flexible and monetized, thinks in alternatives and places emphasis on flexible adjustment to the world economy. For the former practice either introduces excessive determinacy into a series of questions that, in the optimal case, do not yet have to be decided at a given time; or conversely, it creates a false sense of security, of "being covered by agreements," even where this is not possible on the basis of the real processes. This is one more reason why any dropout in deliveries causes so much trouble.

From the viewpoint of a comprehensive reform, the processes outlined above influence unfavorably the training and skills of the specialists employed in planning. Knowledge of administering transactions and of selling is assuming a greater role in the training of this personnel, and there is less emphasis on foresight that is essential for the future, on analytical ability and macroeconomic overview and, last but not least, on receptiveness for the new. This in itself becomes an obstacle to bolder changes.

These processes influence unfavorably also the reality of present cooperation in planning because in this way there is less investigation of the reality of the drafts presented by the partners, not as business proposals but as macroeconomic forecasts. Cooperation in planning is unable also for this reason to respond flexibly--it can respond only clumsily, through operational intervention by the government--to sudden or large-scale changes in the factors taken initially into consideration, although such changes can be expected with increasing frequency.

Because production cooperation is insensitive to value relations, there is greater likelihood that trade policy by provenances and destinations will prevail over the considerations of general economic policy. This can jeopardize national economic equilibrium; the foreign deficit generates measures to restore equilibrium, and such measures usually frustrate the trade concepts coordinated in advance. This leads to the conclusion that the undeveloped market conditions and, because of them, the disguised and delayed confrontation of interests are the cause of the growing uncertainty of planning and of the planned trade.¹³ Hence the uncertainty that affects not only relations between enterprises, but also relations between the planning organs increasingly forced to concern themselves with the microeconomy. And this reduces--justifiably in some instances--cooperation in coordinating major development projects to a level even lower than what would be feasible under the given conditions.

In the final outcome, then, the well-known typical shortcomings of command-directed planning are being reproduced on the international level, and the resulting decisions--faultless in their own logic--come into conflict with the trends and requirements of the world economy.

Sheynin in his noteworthy article [39] discusses many interesting ideas, including the proposal that the CEMA countries should make also their relations with the world economy a part of coordinating their national economic plans. In my opinion, success could be achieved by turning this idea around: by modifying and altering the forms of cooperation in planning, in accordance with the world economy's set of requirements. Until this is done, cooperation in planning would have to start out from the world economy's trends and from how the CEMA community's position within the world economy is developing, and it would have to try to develop primarily measures to strengthen this position. Such measures could be mainly export-oriented development projects, coordination of structural policy in accordance with the world market's criteria and other considerations, and the macroeconomic management system's modifications to restore to planning its macroeconomic functions. Among the immediate possibilities, without any claim to completeness, we might mention the following: less emphasis on statistical tables and more intensive investigation of trends; raising the quality of the basic information used in planning; including, among other things, better preparations for the consultations on economic policy; more meaningful exchange of information, and incentives for it; finally, development of the aforementioned institutional forms to enhance microeconomic cooperation and the activization of the existing ones--for example, better technical documentation, better gathering of business information and organization of business deals by the commercial sections, more active recruiting and use of the diplomatic missions for specific tasks of economic cooperation, and better information about the socialist countries' economies--which may be regarded as being also of general political interest.

These measures could produce results, but they will not enable us to circumvent the basic issues. Under a cooperation mechanism that plans in physical units, and therefore employs mostly mandatory quantitative quotas, it is impossible to provide enterprise incentives for technical development, product innovation and widespread application of the marketing approach. In the process of adjusting to the world market--partially as a result of the new trends of technological progress toward decentralization--the importance of local initiative increases and there is no substitute for its role. As local initiative gains room in the economic mechanisms of the individual countries, the more alien will become the effect of the processes and motivation stemming from the internal logic of the CEMA planning and institutional system that was created in the period of embargo policy (in a situation characterized by the preponderance of extensive growth and trade in raw materials) but has not been reformed, in spite of the altered external and internal conditions. This system, which functions according to its own laws and regulates 4 percent of world trade, is in need of basic reform so as to strengthen the member nations' position in the ever-stiffer competition in the non-CEMA markets representing 96 percent of world trade, to enable the East European region to cope successfully with the problems stemming from the beginning of its new era, and to help the national economies overcome the barrier to their growth stemming from their inadequate ability to export.

The principal task of regional cooperation, according to every jointly approved CEMA document, is specifically to contribute toward the member nations' growth.

With this we have come to the final conclusion. The market problem cannot be avoided even in international cooperation, and the less so at the beginning of a new era in the world economy. Cooperation in planning and the coordination of structural policy can be raised to a qualitatively higher level by developing international market relations, and a controlled international market mechanism will enable CEMA to become a regional economic community that is organically integrated into the world economy and more successful than its growing number of competitors.

FOOTNOTES

1. At the same time, the protectionist industrial-development interests and groups did not cease to exert their influence. This is evident, for example, also in the successful efforts to establish in Hungary the production of color TV sets--or more accurately, of picture tubes--although from the very outset such production was a nonstarter in international competition.
2. This is evident already on the basis of the experience of the 1930's.
3. In my opinion, it would be more appropriate to replace "because" with "although" in this quotation.
4. It will be remembered that Hungary regarded as desirable about 25 to 30 percent of trade without quotas [40].
5. The volume "25 Eves a KGST. Alapokmany, Alapelvek, Komplex Program" [Twenty-Five Years of CEMA. Charter, Basic Principles, and the Comprehensive Program] that the Kossuth Publishing House produced in 1974 greatly facilitates the comparison of these basic documents.
6. As reflected also at the large-scale international conference on pricing theory held in Budapest in 1967, the economic reforms inevitably raised in several East European countries the idea of using a controlled market as the basis of CEMA cooperation. And although only a few years elapsed from the start of these debates to 1971, a series of important events occurred during this period. In addition to the 1968 Hungarian reform, for example, there were the March 1968 and December 1970 riots in Poland; the SED judged as unsuccessful and scrapped East Germany's structural policy and the 1968-1970 macroeconomic management experiment heralded as "the economic system of socialism"; and last but not least, between December 1967 and April 1969 the party leadership in Czechoslovakia changed twice, after stormy developments. In late April 1969, at the 23d extraordinary session of CEMA that was to decide on the Comprehensive Program's elaboration, economic reforms were already losing favor. And in 1971, the thinking of the decision-makers in most of the Comprehensive Program's signatories was determined by an economic-policy environment that sought alternatives to the economic reforms of the 1960's.
7. See G. Sorokin's controversial article [41].

8. Naturally, this again was not an attempt at Hungarian "intellectual export" or at exporting the Hungarian economic mechanism's solutions (as some authors contend). In her comprehensive analysis of the standpoints expressed in the Bulgarian and Soviet professional literature, Kamilla Lanyi justifiably pointed out in the mid-1970's that some of the Soviet economists who were urging the harmonization of economic mechanisms wanted in the final outcome to support through such modification of CEMA cooperation, with the requirements of the division of labor within CEMA, the greater degree of monetization they believed necessary in the Soviet economy [42].
9. The eminent Czech author clearly implies that not even the present Hungarian practice of macroeconomic management meets the conditions of the model that he outlines in detail also from the viewpoint of fiscal techniques. Hence this is not a question of projecting the--nonexistent--"Hungarian model."
10. This statement, which probably will evoke considerable controversy, is expounded in greater detail in my article about to appear in KULGAZDASAG.
11. At the international conference on this subject, Professor Christa Luft, one of East Germany's leading CEMA experts, likewise opposed interpreting harmonization as the unification of national economic mechanisms, or even as change in that direction [43].
12. In recent years, more and more reports, analyses and articles exploring the real situation in individual CEMA countries have been appearing in our magazines and weeklies. It would take several pages merely to list the interesting and valuable contributions published in KOZGAZDASAGI SZEMLE, JOGTUDOMANYI KOZLONY, FIGYELO, HETI VILAGGAZDASAG, BANKSZEMLE, KULGAZDASAG, IPARPOLITIKAI TAJEKOZTATO, or even MEDVETANC, for example.
13. Sometimes the growing parallel shortages are mentioned as a direct reason. From the conception of the plan as a picture of the future, however, there would follow the requirement of foreseeing such shortages, and of elaborating a suitable response to them in due time. And it is necessary to prepare for foreseen difficulties. Thus the uncertainties should rather be declining.

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REPORTER SEES ACID RAIN EFFECTS IN GDR, CZECHOSLOVAKIA

Helsinki HELSINGIN SANOMAT in Finnish 11 May 84 p 29

[Article by Antti Vahtera: "Lignite Ravages Czechoslovakia and GDR"]

[Text] In the middle of Europe in the GDR and in Czechoslovakia air pollutants are destroying forests to a frightening degree. A HELSINGIN SANOMAT editor and a photographer made themselves familiar with a catastrophic situation which deeply troubles authorities and scientists of both countries.

"Roughly 400,000 hectares of Czechoslovakia's forests are damaged, approximately 8,000-10,000 hectares are completely damaged, and consequently dead. We are worried about the fate of our forests."

The words are those of Czechoslovakia's Minister without Portfolio Karel Lobl, who granted HELSINGIN SANOMAT an interview in Prague. Perhaps the interview as such is an indication of a certain change of attitude in the circle of Czechoslovakia's authorities. At present the matter is spoken about more openly, and the same observation holds true, at least to some extent, for the rest of Eastern Europe.

In Czechoslovakia, as well as in the GDR and Poland, air pollution has increased to such an extent that talk of a national catastrophe is hardly very exaggerated.

Gloomy Information about Forest Death

Information from a report labeled secret--it was written by members of Czechoslovakia's academy of science--and recently published in Western newspapers gives a dismal picture of Czechoslovakia's situation.

According to the report, in the coal mine district of Most, which is located near the GDR border northwest of Prague, the number of mental diseases is 120 percent higher than elsewhere in the country and infant mortality 12 percent higher.

Jiri Svic, head of the information service of Czechoslovakia's journalists'

union, says that people do not want to live in polluted areas. To ease the situation the government has set up recreation camps for children elsewhere in the country.

It is easy to find woods in bad condition and destroyed in Czechoslovakia. They could be seen by the kilometer on the trip from Prague to the GDR borders. In Czechoslovakia's Sudetenland there are extensive areas which have nothing but dead spruce forest.

One of Most Polluted Countries in World

The main cause of pollution is the combustion of lignite, on which Czechoslovakia's economy is decisively dependent. The sulfur content of lignite is, on the average, slightly higher than anthracite's.

According to the scientists' report, burning it has resulted in Czechoslovakia's being one of the world's most polluted and polluting countries. The Fichtelgebirge located in West Germany behind the border as well as the Bavarian National Park are hit especially hard by the pollutant load from the east.

On the other hand, it must be noted, of course, that a lot of pollutants flow into Czechoslovakia from West Germany on the prevailing west winds.

The problems are most severe, according to the report, in the district of Most where lignite is quarried in enormous open mines. In recent years, excavation has extended to the area of the city itself, where new deposits have been found, so that old parts of the city have been displaced.

The susceptibility of residents of the lignite district to inflammatory and parasitic diseases is 3.6 times greater than elsewhere in the country. Scientists fear possible genetic damage, which could be the result of pollution over a long interval of time.

Scientists are also concerned about the fate of forests and animal life. According to them, roughly one third of Czechoslovakia's forests are seriously damaged or completely dead. Pollutants threaten 30 percent of fish and birds. Pheasant catches have decreased 40 percent and rabbit catches altogether 80 percent.

Minister Lobl admits that the situation is serious. He states that the reasons are partly historical. About 70 percent of the industry of former Austria-Hungary fell in due time to Czechoslovakia. The industrial plants used wood as a raw material and were generally located on the edge of a forest, so that the forests were already damaged at an early stage.

According to Minister Lobl, it was just 20 years ago that the negative effects were perceived on a relatively wide scale. He indicated on the map the worst damaged areas, which are situated in the vicinity of the border

opposite the GDR--in the district of Most and in the border district opposite Poland.

Streamlining and Purification Equipment

Measures have been taken in Czechoslovakia to prevent the death of forests. "We are striving, first of all, with the help of power plant streamlining, to reduce the quarrying of lignite, so that in 10-15 years it is 20 million tons less than at present. So far, in the years 1975-83, streamlining has made possible a reduction of 1.15 million tons," says Lobl.

"By constructing purification plants we have been able to reduce pollutant quantities to some degree. Right now, in collaboration with the GDR, we are building sulfur removal equipment into ten power plants. The outlay for them is 50 percent of a power plant's total costs."

Nuclear Power an Aid in Long Run

Over the long haul, Czechoslovakia aims to resort to nuclear power to a growing extent, states Lobl. At present there are two nuclear power plants in operation in the country and two under construction. They are striving to get a fourth of their electricity from nuclear power in the year 1990, and growth will continue to the turn of the century.

The forest problems of the German Democratic Republic are by nature largely similar to Czechoslovakia's. They derive, for the most part, from the widespread use of lignite as a fuel. The problems are severest in the Erzgebirge, the border district opposite Czechoslovakia, which is a direct extension into the worst crisis area of the southern neighbor.

Considerable emphasis is placed on reforestation in the GDR's forest policy. Especially in the Erzgebirge the aim is to reforest extensive areas, where the conifers have died, with new varieties whose durability against pollutants has been carefully investigated.

Purification Methods Being Developed in GDR

Professor H. Thomasius, who heads Tharandt's forest research institute, also stresses the significance of purification measures. He states that in the GDR there have been experiments with mixing lime into lignite before combustion, by means of which roughly 50 percent sulfur removal has been achieved. Other methods, such as the slime removal method, are also being developed.

According to Professor Thomasius, positive results have been achieved with the measures practiced up until now: damage no longer increases or has been turned in a diminishing direction. Even better results are expected when new purification equipment is brought into use pursuant to the formulated program.

This hopeful outlook is not in harmony with the alarming news of Western newspapers. Thus, in the middle of last year the FINANCIAL TIMES stated that

there is no sulfur removal equipment whatsoever in the GDR's lignite power plants and that at the beginning of the 1970s the GDR's power plants produced over twice as much sulfur dioxide as West Germany's power plants.

It is, on the other hand, possible that this sort of news is to some degree outdated. In the GDR, as well as in Czechoslovakia, people have woken up to acknowledge that the death of forests is a deadly serious matter aside from just the viewpoint of the forests.

"Irresponsible to Speak about Acidification"

However, Professor Thomasius is not able, or does not want, to answer the question of how great a quantity of the GDR's forests is damaged or dead. He says it is difficult to draw a line between sick and healthy forests. Besides, giving numerical information is a matter for the authorities.

A certain belittlement of the acid rain problem also shines through his words. He says that it is irresponsible to speak about the "acidification of everything," because industry's smokestack gasses can be alkaline, too. Nor is acidification always and inevitably a bad thing: excellent growth has been observed in places in acidic soil.

In the long run, attention must be paid to the fact that the lignite reserves will run out early in the next century. Thomasius states that the goal is to replace them with nuclear energy and, as far as possible, also with renewable energy resources such as water and solar energy.

Extensive Planting in Erzgebirge

Chief forest officer Gunther Teubner, who is our guide in the Erzgebirge terrain, says he, too, is an optimist. "We have a lot of problems, but we're doing all we can for the preservation of forests in the mountains."

Unquestionably the planted trees, of which the oldest are already fifteen years old, appear to be in good condition, particularly if they are compared with the dead spruce woods visible in the background.

Teubner assures us that the plantings are based on careful investigations into which trees are suitable to which area. Meteorologists have prepared precise maps about the effects of the winds.

12327
CSO: 3617/160

COOPERATION WITH WEST TO IMPROVE BLOC CREDIT WORTHINESS

Duesseldorf HANDELSBLATT in German 7 May 84 p 10

[Article signed OWR: "Many Projects Must Remain on Hold"]

[Text] Duesseldorf -- in view of the payments difficulties under which a number of socialist countries are suffering so greatly, a question arises that is quite justified under the circumstances: How will the credit problem affect future relations between the industrial countries and the socialist East?

All socialist countries are short of capital and their need for financing exceeds their own possibilities. At the same time, modernization of the economy is quite simply a question of survival for these countries. They clearly see the danger of being swept aside by technical developments in the industrial countries and of falling even farther behind technologically.

In some Eastern countries, as in Poland, the specter of slipping back to the level of the Third World is already being discussed openly. In other countries, this question tends to be handled in a veiled manner. But all of them face the problem. And what is worse, CEMA countries, in marketing their finished goods, are now facing competition from the "Newly Industrialized Countries," such as South Korea, Hong Kong, Taiwan, Singapore, or India.

Because of the credit difficulties, imports from the industrial countries are now financed almost exclusively through one's own exports or through supplier credits, whereby absolutely nothing takes place without credit guarantees by Western governments. Accordingly, the level of imports in the smaller countries has declined sharply, so that the imports do not even cover urgent needs. Modernization projects remain on hold; there simply is no "hard" currency for them.

Some countries, such as Poland or Romania, are currently totally excluded from modernization credits. It is also difficult to imagine that Poland will be able to solve its debt problems in the near future in such a way as to make new credits possible (except for debt refinancing). In contrast, for countries such as the USSR, the CSSR, the GDR and Bulgaria, the question is how far they can go into debt without losing the chance of being able to repay the debts.

Raw Materials Industry As An Exception

Experiences to date have shown that foreign credits did not always create industrial capacities able to supply exportable goods. An exception is the raw materials industry, where new injections of capital (as in the natural gas deal) also secure new export capacities. Raw materials can almost always be sold, albeit often below the world market price. Thus the positive example of the Polish copper industry shows that even during a crisis raw materials exports can be maintained or even expanded. The manufacturing industry in all Eastern countries, on the other hand, has supplied numerous negative examples. The quality of the products often did not meet the requirements of the hard-currency market, while the credits entered into for the construction of factories put a heavy burden on the trade and payments balances of the Eastern country concerned.

The same principle that applies to capitalist companies also applies to socialist countries. Credits are good for successful and efficient enterprises but they cannot help inefficient enterprises out of their difficulties.

Instead they often drive them into bankruptcy. And one should not forget that the interest rate in the capital market was extraordinarily high in recent years. But the higher the interest rates are, the better an enterprise has to work to be able to handle the interest burden. In the first large loans that they took up, the socialist countries had obviously not expected such high interest rates. To be sure, this is not so much true for the USSR, which was often able to force down credit costs in financing large-scale projects, whereas the smaller CEMA countries felt the trend in interest rates more painfully.

Large Requirements for Credit

The following figures indicate how large this burden is: Yugoslavia must, according to its own estimates, pay \$2 billion just in interest in 1984. In the current year, Poland needs \$1.75 billion for interest and principal. One must thereby consider that in practical terms Poland is paying to the banks only part of the interest due (the rest returns to Poland in the form of revolving credits) and is still not paying any interest on government loans. With a debt of more than \$26 billion, Poland should be paying out about \$1.5 billion just in interest.

Despite all of that, the Eastern countries will continue to need credit. This credit, however, must be used more efficiently than in the past. The most successful business deals could be those that ensure firm supply opportunities for the socialist countries. An example is the Volkswagen deal with the GDR. Joint ventures could be another form of capital accrual. To be sure, the previous examples still do not permit an unequivocal evaluation, but they do at least show that with good will and undogmatic policies, these possibilities do exist for financing business with the East.

The credit worthiness of socialist countries, then, will depend upon closer cooperation with Western firms in concrete projects. The better the relations between the economy of the Eastern countries and the West, the more new credits can be risked by both East and West.

9746

CSO: 2300/485

AGRICULTURAL PROJECTS LACK SKILLED OPERATORS

East Berlin FELDWIRTSCHAFT in German Vol 25 No 5, May 84 pp 189-191

[Article by K.-H. Braun, Ministry for Agriculture, Forestry and Foodstuffs:
"Development and Effective Use of Irrigation - An Important Factor in the
Further Intensification of Plant Production"]

[Text] The significant rise in the output of agriculture ranks high for the purpose of the ongoing implementation of the Tenth SED Congress resolutions. This arises from the fundamental need to guarantee steadily larger and stable supplies to the public of plant and animal foodstuffs and to industry of agricultural raw materials, and to do so as rapidly as possible from domestic yields while lowering specific production consumption.

The socially necessary rise in farm output continues to focus on the priority development and resolute further pursuit of the intensification of plant production in the reproduction conditions of the 1980's. It aims reliably to secure the planned state yield of plant products by the substantial increase and stabilization of hectare yields for all field crops, especially sugar beet, potatoes and cereals, and in every cooperation as soon as possible to autonomously produce the necessary basic feed and concentrates for the planned livestock holdings and the targeted yield of animal products.

In the year when we are celebrating the 35th anniversary of our republic's establishment, cooperative farmers, workers and other working people of the LPG's, VEG's [state farms] and GPG's [horticultural producer cooperatives], together with their cooperation partners, are directing their competition initiatives to the fulfillment and overfulfillment of the total plant production of 45.1 dt [decitons] per GE/ha [grain unit per hectare] LA [agricultural area], as fixed in the economic plan.

A vital link in the chain for the realization of the priority development and further intensification of plant production is the better utilization of the agricultural areas available by the systematic improvement of their fertility, the effective use of natural advantages and the planned realization of fund conserving intensification measures.

In the complex of these measures, irrigation and drainage are of particular importance because they deal with performance limiting soil and site conditions and thereby decisively contribute to the improvement of soil fertility, reduce

prediction losses due to the water budget, and secure and raise the yield efficiency of other intensification measures. These circumstances are taken into account in the GDR Council of Ministers' resolution of 27 October 1983 on the "Program for the Utilization of All Irrigation Opportunities for Raising Hectare Yields in Plant, Fruit and Vegetable Production."

Yield Efficacy of Sprinkling (in dt/ha) (Central State Administration for Statics)

Type of Crop		x 1977/80 Additional Water Needs medium... low	1981 low	1982 high	1983 high
Sugar Beet (K)	Total yield	332.0	351.0	332.0	310.0
	Additional Yield ¹	42.0	58.0	90.0	83.0
Potatoes	Total yield	216.7	239.0	212.0	184.0
	Additional Yield	25.5	36.0	55.0	60.0
Perennial Field Crops	Total Yield	514.9	519.0	468.0	532.0
	Additional Yield	140.1	138.0	180.0	185.0
Silo Corn	Total Yield	379.0 ²	392.0	343.0	345.0
	Additional Yield	55.0	62.0	92.0	88.0
Pasture Land	Total Yield	392.0	395.0	377.0	407.0
	Additional Yield	102.0	92.0	130.0	119.0
Cereals	Total Yield	41.2 ³	40.7	43.0	43.7
	Additional Yield	4.2	5.7	5.9	6.5

1. Additional yield = difference in yield between irrigated and not irrigated areas planted to the respective crop by the enterprises included in the assessment.

2. x 1970/1980.

3. x 1978/1980.

The program orients the initiatives in villages and cities to

- The development of water reserves for the significant expansion of irrigated areas in LPG's, VEG's, GPG's, VKSK [Union of Small Gardeners, Settlers and Small Livestock Breeders] gardens and gardens of other small producers, largely by simple irrigation measures, and
- The effective utilization of all irrigation installations provided for the increase and stabilization of plant production, primarily vegetables and fruit.

Closely linked with the ongoing implementation of the long-range programs for efficient land use and the extensive use of field-related maximum yield conceptions, it is therefore imperative consistently to carry out the tasks assigned by the irrigation programs for 1984 and the years following.

Results of the Use of Irrigation

Cooperative farmers and workers in the LPG's, VEG's and GPG's as well as members of the VKSK can rely on extensive scientific-technological knowledge and practical experiences in the management and organization of irrigated plant production for the yield-effective utilization of existing areas suitable for irrigation and their future extension.

In the course of the intensification of plant production, irrigation facilities have so far been provided for 930,000 hectares (14.9 percent of the LN), including 443,000 hectares (7.1 percent of the LN) sprinkler facilities. Consequently it was possible for irrigation to provide a significant contribution to the increase and stabilization of yields in many cooperations in the average of several years and despite varying weather conditions. Using efficient storage processes to regulate ground water, LPG's and VEG's managed in past years to achieve 5-20 dt GE/ha yield increases and, at the same time, prevent sharp drought-related reductions, depending on location, type of facility and total rainfall in the various years.

The table illustrates the intensification effects of sprinkling with respect to the most important field crops.

It is important to realize that irrigation makes for considerable additional yields, especially with regard to feedstuffs which need a lot of water and at locations with a small usable water capacity, not only in drought years with a large rainfall deficit (1982/1983) but also in years with medium and minor requirements for additional water (1977/1981). Following several years of operation of their irrigation facilities involving the development of 25-30 percent and coupled with the observance of an agronomically appropriate organization of cultivation and crop sequences on areas suitable and unsuitable for irrigation, many enterprises using sprinklers were able to raise the overall yield level by 5-6 GE/ha LN (depending on location and intensification level 0.7-1.3 dt/ha LN per 10 percent development part). The results and experiences of past years confirm that, in appropriate combination with other intensification measures, the utilization of all local water reserves to expand irrigation areas and the demand-appropriate rational use of irrigation represent a significant growth factor for plant production.

Tasks Involved in the Implementation of the Resolution on the Irrigation Program for the Efficient Utilization of the Irrigation Facilities Provided

Going by the national requirements and reproduction conditions and in the implementation of the irrigation programs, the efforts for the more efficient utilization of irrigation must emphasize the following tasks:

1. The demand-appropriate use of existing irrigation facilities is one of the most important task nationally for the adequate domestic production of all types of vegetable capable of being produced in our climatic and soil conditions and of the early potatoes required for the earliest possible supply. It is also necessary to secure the fruit orchard centers against the adverse effects of the lack of rainfall. This is immensely important for the stability of vegetables, early potatoes and fruit.

The current standard of secure water supplies for vegetable cultivation and the early potatoes needed from the third week in June to the end of July to meet the demand does not yet correspond to the requirements and potentials.

It is a priority task for the many initiatives for the utilization of limited local water resources to expand irrigation areas in the villages and enterprises by creating efficient irrigation prerequisites mainly for vegetable and early potato fields for regional autonomous supplies, garden areas of VSK sections and other vegetable and fruit areas hitherto not suitable for irrigation in the LPG's, VEG's and GPG's. This also means that all possibilities of local crop planning for the increased inclusion of vegetables and early potatoes in existing and new irrigation facilities must be more resolutely used in the interest of the stability of supplies and the economic efficiency of the irrigation facilities.

2. Considering the need for stable domestic supplies of potatoes and sugar as well as the more rapid development of domestic crude fodder and concentrate production, the sensible expansion of potato, sugar beet and fodder fields suitable for irrigation is extremely important. Keeping in mind field and crop cultivation principles of the organization of cultivation and crop sequences on land suitable and unsuitable for irrigation and the technical capacity of the facilities, it will be necessary fully to exploit all the potential for the inclusion of potatoes, sugar beet and fodder in irrigated crop sequences.

The creation of many simple and small-scale irrigation measures in the villages will provide favorable conditions. This applies in particular to intensive pasture areas in the vicinity of usable local water reserves.

The aspect of the utilization of all reserves for increasing domestic production of fodder concentrate also calls for the more consistent use of the reserves still available for demand-appropriate sprinkling of the cereals planted on the fields equipped with sprinklers. Any failure to fully utilize the potential sprinkling of the cereals ultimately diminishes the output of additional yields and the economic efficiency of the available sprinkler installations.

3. The main objective for the more efficient use of irrigation is the increase in total and additional yields on the irrigated areas.

Analyses of the yield results and utilization indices of sprinkler installations reveal unwarranted differences in the performance of the sprinkler enterprises. These are decisively affected by the standard of meeting the additional water requirements of the crops, the soil fertility and normative-appropriate conduct of the crop-related production procedures and the ability of the managements to cope with the complex processes of irrigated crop production. In many sprinkler installations, the weather and vegetation-related additional demand for water is not adequately met by the appropriate technological sprinkler performance due to the insufficient recruitment, training and allocation of skilled sprinkler operators. Defects in reservoir management have a similar effect. First results are reductions in the yield efficiency of the

additional water and the extent of use of the developed irrigated areas. The development of yield reserves on areas suitable for irrigation is thus a complex agronomic, managerial and irrigation organizational target. Consonant with earlier experiences, the agronomic requirements refer mainly to:

- The consistent observance of specialized irrigation and sequences on the technically developed area,
- The systematic elevation of the fertility standard and the 15-20 percent greater fertilization of the irrigated areas with organic substances if the proportion of fodder crops is less than 33 percent,
- The normative-appropriate implementation of the production processes for the various irrigation crops to ensure efficient plant stocks;
- The appropriate combination of additional water use with other intensification measures, especially the increased application of mineral fertilizers, and
- The correct initiation of additional watering in the comprehensive crop production processes and the practical organization of agrotechnical procedures.

These tasks must be accomplished by proper attention to the specific needs of the irrigated plant production at the time field-specific top yield conceptions are prepared and applied, and to the management, planning and organization of agronomic and agrotechnical processes in the enterprises.

4. Demonstrably crucial for the greatest possible yield efficacy of irrigation installation have been

- The guarantee of the crops planted receiving the appropriate water supplies in terms of schedules, rhythm and additional water quantities,
- The assurance of the necessary utilization of the sprinkler installations in terms of time and area by guaranteeing the necessary shift work at peak demand times as well as the best possible sprinkler performance and quality of sprinkler operations, and
- The organization of efficient reservoir management in the facilities for ground water regulation.

Since 1977 the electronic data processing project "sprinkling advise" has been found to be an important decisionmaking aid for the operational control and the rational use of sprinklers. Sprinkler use is being extended to more than 300,000 hectares in 1984. Based on objectified sprinkler recommendations for semistationary sprinkler installations, regionally differentiated suggestions for the scientifically established use of fully mobile sprinkler installations will be published in the local pages of the BAUERN-ECHO for the 1984 sprinkler season.

The sprinkler installations must be extensively used to ensure the yield-effective use of all sprinkler installations with respect to the justified consumption of water, energy and money.

The recruitment and training of the necessary irrigation specialists is one of the most important requirements for demand-appropriate additional water supplies, the greatest possible irrigation performance and quality as well as the energy and money conserving operation of the irrigation installations. All our experiences demonstrate that it is imperative for the efficient use of sprinklers to select and balance the operators for three-shift operation in the peak period (July, August), and to do so well before sprinkling commences. The dependence of sprinkler use on the weather requires flexible labor organizational arrangements and the precautionary provision of suitable alternative work. It has been found useful to employ the parent collective with the most skilled and experienced operators largely year round on operational, conservation, maintenance and rationalization work at the sprinkler installations. Permanent shift collectives are preferably to be set up from planned skilled workers of the LPG's or VEG's, or from the CBE's (interplant facilities) of the LPG/VEG.

With regard to the establishment of collectives for the third shift and weekend work at the peak sprinkler time (July/August), many enterprises have found it useful to recruit seasonal labor such as students of the senior grades of the polytechnical secondary schools and the expanded secondary schools, college students and other local manpower.

It is definitely necessary together with the establishment of irrigation facilities provided for in the irrigation programs to recruit and train the needed irrigation specialists, so that the investments and funds employed quickly become effective for raising the yields.

The resolution on the irrigation program therefore indicates the comprehensive organization of the FDJ initiative "Irrigation." The training of irrigation and reservoir operators proceeds on the basis of standard training programs and is handled by the Kreis schools for agriculture.

5. To promote the best possible performance in irrigation, the local state organs must comprehensively organize the inter-enterprise competition and performance comparison. This must emphatically direct the initiative of the irrigation collectives to the guarantee of demand-appropriate additional water use, the achievement of large total and additional yields, the complete utilization of the available installation capacities and the steady lowering of the specific consumption of energy, material funds and money by the exemplary use of all findings of scientific-technological progress and socialist management.

By better yield and efficiency results in the use of irrigation installations, the irrigation collectives make their specific contribution to the fulfillment and overfulfillment of the challenging plan targets in plant production for the successful further pursuit of the policy of the main task in its unity of economic and social policy.

COUNCIL OF MINISTERS CUTS TAXES FOR COMMISSION AGENTS

East Berlin GESETZBLATT DER DEUTSCHEN DEMOKRATISCHEN REPUBLIK in German Part I
No 10, 10 Apr 84 p 115

["Third Decree on the Taxation of Commission Agents of 29 Mar 84, signed by
W. Stoph, chairman of Council of Ministers of the GDR and E. Hoefner, Minister
of Finance"]

[Text of Decree] The following is decreed on the taxation of commission
agents:

Surcharge on Taxes on Commission Trade

Article 1

(1) Commission agents who pay taxes as per the Decree of 24 December 1959 on
Taxation of Commission Agents (GBL I 1960 No 2 p 19; Ber No 12 p 126), must
pay a surcharge on any profit in excess of M30,000 per annum.

(2) The surcharge on the tax on commission trade amounts to:

- a) 30 percent of the annual profit in excess of M30,000 for an annual profit
ranging from M30,000-35,000,
- b) M1,500 plus 50 percent of an annual profit in excess of M35,000.

(3) If the tax on the commission trade is collected only for part of the
calendar year (beginning or end of the operation), the profit earned in that
period must be converted to an annual profit. Each started month counts as a
full month. The surcharge arising on the tax on commission trade is collected
for the months during which the operation was conducted.

Article 2

The provisions of the Decree on 24 December 1959 on Taxation of Commission
Agents and the legal regulations subsequently enacted thereto apply to fixing
and paying the surcharge.

Article 3

Implementing Regulations

The Minister for Finance will issue implementing regulations.

Article 4

Taking Effect

(1) This decree takes effect upon publication. The period of computation of the taxation as per this decrees commences with the second quarter of 1984.

(2) Lasting effect on the same date is the Second Decree of 15 December 1970 on the Taxation of Commission Agents (GBI II No 97 p 689).

[164m

CSG: 2182/491

INSURANCE PAYMENTS DEDUCTIBLE FROM TAXABLE INCOME

East Berlin GESETZBLATT DER DEUTSCHEN DEMOKRATISCHEN REPUBLIK in German Part I
No 10, 10 Apr 84 p 124

["Order on the Fiscal Recognition of Contributions by Private Artisans and Tradesmen to the Voluntary Supplementary Pension Fund of 29 Mar 84, signed by E. Hoefner, Minister of Finance"]

[Text] The following is ordered on the basis of Article 12 of the Taxation Order in the Version of 18 September 1970 (Special Issue No 681 of the GESETZBLATT):

Article 1

This order applies to private artisans and tradesmen who operate on the basis of a business permit.

Article 2

(1) For the calculation of the taxable profit or income, 50 percent of the contributions payable for the calendar year to the voluntary supplementary pension fund by the citizens mentioned in Article 1 and their spouses working with them may be deducted.

(2) For 1984 the amount deductible as per Paragraph 1 is allowed proportionately for 9 months.

Article 3

This order takes effect upon publication.

11698

CSO: 2300/491

EXQUISIT STORES RAISE CONSUMER PRICES

East Berlin GESETZBLATT DER DEUTSCHEN DEMOKRATISCHEN REPUBLIK in German Part I
No 9, 30 Mar 84 pp 106-108

["Pricing Order No 441 on the Formation of Prices for Exquisit Products of
10 Feb 84, signed by W. Halbritter, director of Office of Prices"]

[Text] In agreement with the managers of the competent central
state offices, the following is ordered:

Article 1

Scope

(1) This order regulates the drafting, application for, testing and confirmation of enterprises and retail sales prices for Exquisit products and their publication.

(2) This order applies to enterprises and facilities (hereinafter designated enterprises). It also applies to combines and state organs for the observance of their tasks in connection with the price application procedure for Exquisit products.

Article 2

Definition of Terms

(1) Exquisit products in the meaning of this order are

- Men's and women's clothing, including furs,
- Men's and women's footwear and leather goods

of ultra modern and attractive design, distinguished by the use of choice materials and, as a rule, offered in small quantities. Also included are fashion accessories and top products of the chemical industry. Exquisit products may not be part of the general fashion assortment of the respective ordinary trade, either with regard to quality and finish or fashion design and cut, and they must show distinctive differences from the general assortment.

(2) Products corresponding to the definition as per Paragraph 1 and acknowledged Exquisit products, may be sold only via the state trade enterprise Exquisit (hereinafter designated VHB Exquisit) in the points of sale designated accordingly. Acknowledgment as Exquisit product accompanies the confirmation of the retail price.

(3) Also acknowledged as Exquisit products are textile fabrics, leather, man-made leather and accessories used exclusively to manufacture products as per Paragraph 1. This end use must be agreed in the contract between supplier and processor. Suppliers are domestic production enterprises and foreign trade enterprises.

Principles of Enterprise Price Formation for Exquisit Products

Article 3

(1) Manufacturers must draft enterprise prices on the basis of the pricing instructions applicable for the respective price calculation (including the special calculation directives) and propose them for central state confirmation.

(2) Manufacturers may draft enterprise prices also on the basis of calculable costs plus the profit surcharge to be calculated as per the instructions of the pricing directives, and propose these for confirmation.

(3) It is permissible to combine the procedures as per Paragraph 1 and 2.

(4) The respective applicable calculation system must be used to draft enterprise prices as per Paragraphs 1-3. The VHB Exquisit must be advised of the particular procedure used to arrive at the enterprise prices. Processing costs must be shown separately in the calculation. Processing costs are the difference between prime costs capable of being calculated on the one hand and the costs of basic materials (including components bought in and outside labor) on the other.

(5) The manager of the Price Office will issue a special price regulation on the use of differentiated prices for small lots.

(6) Foreign trade enterprises must form enterprise prices in accordance with the special provisions issued by the manager of the Price Office for Exquisit products to be imported.

Article 4

(1) As per the pricing order¹ issued by the manager of the Price Office, manufacturers of Exquisit products as per Article 2 Paragraphs 1 and 3 are allowed a material incentive. This material incentive is granted for the product as a surcharge on the enterprise price as per Article 3, depending on the normative profit on the basis of the established rules. The surcharge is fixed at the time of the central state confirmation of the retail sales prices for products as per Article 2 Paragraph 1 or the enterprise prices for products as per Article 2 Paragraph 3.

¹Currently in effect is the Pricing Order No 5/83 of 14 September 1983 on the Allowance of a Material Incentive for the Manufacture of Exquisit Products.

(2) These surcharges and the surcharges for quality seal Exquisit Quality as per Article 5 are limited to one season or the contractually stipulated quantity or series.

(3) Special regulations by the Minister for Finance apply to the use of the surcharges as per Paragraph 2.

Article 5

(1) Enterprise prices and retail sales prices for Exquisit products as per Article 2 Paragraphs 1 and 3 apply to products that correspond to the first choice of the standards and quality directives in effect. The provisions of Article 6 apply to products of second choice with the lowest incidence of faults stipulated in the directives.

(2) A quality seal Exquisit Quality is issued for first choice Exquisit products. To be applied to them are the following surcharges in relation to the enterprise price as per Article 3:

Quality Group 1	6 percent
Quality Group 2	4 percent
Quality Group 3	2 percent

The amount arising therefrom is to be added to the enterprise price.

(3) In the case of an Exquisit production under license, an additional 1 percent surcharge is to be applied to the confirmed retail sales price. The amount arising therefrom is to be added to the enterprise price.

(4) To be ascertained on the basis of a separate price instruction by the manager of the Price Office are the enterprise prices and retail sales prices for products manufactured for Exquisit supplies but do not meet the qualitative definitions as per Paragraph 1 and are therefore not subject to the regulations of this order.

Article 6

Enterprise prices and retail sales prices of Exquisit products of second choice as per Article 5 Paragraph 1 are to be fixed by the manufacturers as follows:

- a) The confirmed enterprise prices and retail sales prices for first choice Exquisit products must be uniformly lowered by the minimum discount stipulated for the respective group of goods in the price instructions.
- b) The material incentive as per Article 4 and the surcharge for the quality seal Exquisit Quality as per Article 5 Paragraph 2 are omitted. These amounts must be deducted from the enterprise price before the lowering as per letter a.
- c) The trade discount as per Article 7 must be calculated on the lowered retail sales price as per letter a.

Trade Discounts and Pricing

Article 7

(1) To be applied to Exquisit products are the trade discounts off the retail sales price, that have been fixed for the respective group of goods in the price regulations in effect. Footwear for men and women and leather gloves are exempted from this rule. Applicable to them are the following trade discounts off the retail sales price:

- | | |
|-------------------------------|------------|
| a) Footwear for men and women | 18 percent |
| b) Leather gloves | 10 percent |

(2) The division of the discount rates between the VHB Exquisit and the designated retail trade enterprises is to be contractually agreed.

(3) In agreement with the Price Office, the Ministry for Trade and Supply may fix other trade margins for Exquisit products exclusively on sale in specially designated and exclusive retail stores.

Article 8

(1) Exquisit products as per Article 2 Paragraph 1 must be delivered exclusively to the VHB Exquisit. Suppliers charge the retail sales prices less trade discount as per Article 7.

(2) Exquisit products as per Article 2 Paragraph 3 must be delivered exclusively to the designated further processors. Suppliers charge the enterprise price as per Articles 3-6.

(3) Products as per Article 5 Paragraph 4 may not be sold in Exquisit stores.

Article 9

To be used for Exquisit products is the pricing stipulated for the respective product group in the price regulations in effect.

Price Application Procedure

Article 10

(1) Manufacturers are obligated to submit a price application to the VHB Exquisit for the central state confirmation of enterprise prices and retail sales prices, if they expect to offer Exquisit products to the VHB Exquisit, and no legal prices are at hand for these products and their purpose. The general director of the combine may rule that the price application is first submitted to him for approval. The price application includes:

- a) The special form in quadruplicate,
- b) The calculation of the enterprise price in duplicate,
- c) Supply passport in duplicate,
- d) Samples of the product.

Foreign trade enterprises must apply these rules *mutatis mutandi*.

(2) On the basis of the separate rules issued by the manager of the Price Office, the VHB Exquisit must submit a combined price proposal for the supply collection for central state confirmation.

(3) Before central state price confirmation, the price coordinating organs competent for the respective group of goods must inspect the supply collection and examine the price proposals of the VHB Exquisit, taking into account the prices of the respective special trade assortment. The general director of the VHB Exquisit and the general director of the competent trade managing organ must simultaneously confirm the necessary demarcation of the assortment from the ordinary trade in the respective merchandise.

Article 11

The manager of the Price Office in agreement with the Minister for Trade and Supply and the competent industrial minister confirms the enterprise prices including the material incentive and the retail sales prices. The State Planning Commission and the Ministry for Finance are to be involved in the preparation of these pricing decisions.

Article 12

(1) VHB Exquisit notifies the suppliers of the centrally state confirmed prices by price index page.² The price index pages must be limited in time and confined to delivery quantities.

(2) The confirmed prices apply only to products faithfully corresponding to the samples. In the case of changes vis-a-vis the sealed samples, the suppliers are obligated to submit another price application as per Article 10.

(3) If the central state confirmation of the retail sales prices was issued on the basis of preliminary enterprise prices by the suppliers, and if a different price arises at the final price ascertainment consonant with legal regulations, the suppliers are obligated to submit a new calculation to the VHB Exquisit in duplicate; this needs to be confirmed as per Article 11. This applies only if the final enterprise price is more than 10 percent higher than the preliminary enterprise price and continues to at least cover costs.

Article 13

Documentation

(1) Enterprises must document the confirmed prices including the pertinent applications.

(2) The VHB Exquisit must document the confirmed prices including the pertinent applications and price proposals.

²The product-related taxes arise as the difference between the industrial sales price admissible in price law, and the enterprise price admissible in price law.

(3) The documents to be submitted as evidence as per Paragraphs 1 and 2 must be kept on file for a period of 5 years from the end of the production or the date the prices cease to be in effect.

Article 14

Marking

(1) The manufacturer must append a special mark to Exquisit products as per Article 2 Paragraph 1, by either a sewn on or hanging label, indicating the special nature of these products. To be listed are the model designation, the retail sales price and the manufacturer's name. Specific provisions may be agreed on this point within the framework of contractual relations.

(2) Article 2 of the Order of 7 April 1972 on the Duty to Label Consumer Goods (GBI II No 20 p 230) does not apply to products of this order.

(3) The statement of the retail sales prices on the label meets the obligations arising from Price Order No 2025 of 10 January 1964 - Obligation to Price Marking and Price Documentation - (GBI II No 12 p 95), Price Order No 2025/1 of 1 October 1964 (GBI II No 101 p 839) and the Order of 5 May 1969 on the Amendment of Price Order No 2025 (GBI II No 40 p 264).

(4) Second choice exquisit products as per Article 5 Paragraph 1 must be specially marked on the label.

Article 15

Administrative Penalty Provisions

(1) Anyone who, in his capacity as person in charge, fails to meet his obligations as per Article 10 Paragraphs 1 and 2 or Article 12 Paragraph 2 with regard to the submission of a price application or price proposal, may be penalized by reprimand or a fine from M10-M1,000.

(2) In case of a deliberate misdemeanor as per Paragraph 1, the fine imposed may amount to up to M10,000.

(3) The conduct of the administrative penalty proceeding is the duty of

-- The manager of the Price Office,

-- The state secretary and deputies to the manager of the Price Office,

-- The managers of departments and branch offices of the Price Office,

-- The managers of the price departments at the local councils.

(4) The law of 12 January 1968 on Combating Misdemeanors - OWG - (GBI I No 3 p 101) applies to the conduct of administrative penalty procedures and the imposition of administrative penalties.

Article 16

Concluding Provisions

(1) This order takes effect on 1 April 1984. It affects current contracts and applies to all products manufactured from that date onward and for the first time as Exquisit products.

(2) Losing effect at the same time are:

-- Pricing Order No 115 of 30 December 1974 on Price Formation for Exquisit Products (GBI I 1975 No 5 p 123);

-- Pricing Order No 115/1 of 31 July 1978 on Price Formation for Exquisit Products (GBI I No 27 p 306).

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SUCSESSES, SHORTFALLS IN COMPLETION OF INVESTMENT PROJECTS

Eucharest REVISTA ECONOMICA in Romanian No 17, 27 Apr 84 pp 5-6

[Article by Nicolae Georgescu and Vasile Spiru]

[Text] In the process of the multilateral development of the national economy a priority place in our party's concept is held by the quantitative and qualitative growth of production forces and their rational distribution throughout the country as a basic condition for more and more fully satisfying social and individual consumer needs. The programs established in this regard, particularly since the 9th party congress, have marked out the basic concerns of the party's policy in this area, contributing to a faster growth rate for the economy. Among these, special attention has been given to the investment program, to building new, very large economic projects for industry, agriculture and other branches and to modernizing existing ones and providing the material conditions needed to achieve superior production of a high quality level and with greater efficiency.

Steady fulfillment of this year's investment program and placing the production capacities provided in the plan into operation on schedule and even beforehand are a priority concern for all the factors involved in this process. Broadening the efforts to provide the conditions needed for the good flow of activity on the construction-assembly sites and for finalizing the new projects creates the conditions for increasing the volume of material goods, for satisfying the requirements of the national economy and the foreign market to a greater extent. At the same time, placing the investment projects into operation ahead of schedule leads to a reduction in the tie-ups of capital on the construction-assembly jobs, to an increase in the effectiveness of each leu invested as well as to obtaining supplementary products beyond the plan tasks. As Nicolae Ceausescu stressed at the March 1984 RCP CC Plenum, "It is necessary for us to take all measures to carry out the investments month by month, to place the new capacities into production on time and even to get ahead of some investments. Let us move decisively to firm application of bargains by the job and of contracting for construction projects, thus better linking the activity and incomes of the workers with fulfillment of the investment plan."

Starting with this year, the move to establishing contracting enterprises and the increase in the role of the complex work brigades, the providing of material incentives for the worker personnel to a greater extent by generalizing

bargains by the job even starting last year, have created the conditions needed to obtain superior rates of work on each jobsite.

What are forecast for this year are carrying out an investment program of more than 250 billion lei, the entrance of 480 large industrial and agrozootechnical capacities into the production circuit and putting 150,000 homes into use as well as numerous social-cultural projects. Solid preparation of the investments and better collaboration among the factors involved in the investment process have made it possible for large production capacities to be connected into the economic circuit for the first quarter of this year. Up until 31 March 1984 more than 69 large production capacities were put into operation in the priority sectors, of which 12 were ahead of the planned schedules.

Special achievements were recorded by investment beneficiaries in the extraction and energy sectors (the opening and start of operation of the bituminous shale deposit at Anina--103.2 percent; the opening of the Amaradia-Tirilor mining field and start of operation--141.2 percent; the opening of the Rosia Jiu pit and start of operation and so forth). The rate of jobs on other construction sites also has been much higher than the same period last year, which has permitted a large number of priority projects to go into operation within the schedules set. New production lines entered into operation at the Urdar, Timis-eni-Pinoasa pits and Seciuri I West pits in Gorj, which has permitted connecting some capacities of more than 1 million tons of lignite into the production circuit; the hydroelectric energy harnessing of the Siret River along the Bistrita-Trotus sector as well as putting the district electric heating central of Navodari and the Sebes-Sugag hydroelectric power central into operation offer the national economy more than 140 MW of installed power.

Also to be mentioned are the special achievements obtained in the machine construction sector (the Cluj-Napoca heavy equipment combine--111.2 percent, the Bucharest diesel motor enterprise--104.6 percent, the development and diversification of city automobile production at the Pitesti Automobile Enterprise--122.8 percent) and in the chemical industry sector, where an appreciable number of capacities have entered into operation, among which are the 30,000 tons of polybutadiene rubber at the Brazi petrochemical combine; the 10,000 tons of cotton-type cellulose fiber per year at the Suceava forestry enterprise; the 1,000 tons of technical plates and rubberized rugs per year at the Tirgu Jiu CATC [expansion unknown]. At the same time, from the series of industrial firsts from the beginning of this year we mention the modern capacities at the wire and wire products enterprise in Buzau, the Focsani metallurgical enterprise, the hydromechanical enterprise in Brasov, the Pitesti electric motor enterprise, the Rimnicu Vilcea chemical combine, the Rimnicu Sarat enterprise for brake facings and sealing.

Valuable experience for the way jobs are organized, for decisively promoting modern construction solutions and advanced working techniques which also should be taken over by other construction units is offered by the job sites which have succeeded in placing some large industrial projects into operation ahead of schedule. As examples in this regard we mention the start into operation of the capacity for 20,000 tons of steel wire per year in January 1984 (7 months early) at the Beclean metallurgical enterprise; in March 1984, the capacities

for 20 million lei/year of apparatuses and mechanisms for industrial clocks at the Arad industrial clock enterprise and 5 million lei per year of tools, devices and testers at the Pitesti electric motor enterprise 7 and 8 months ahead of schedule, respectively, compared with the schedules forecast in the plan.

The good results obtained in the first part of the year primarily are due to improvement in construction activity through the entire channel--from providing technical documents up to finalization of the projects, strengthening of order and discipline in each brigade and work point and a better rate at which raw materials and the necessary materials are provided and so forth. At the same time, the programs for delivery of equipment and apparatuses have been followed better, with priority given to the investments requiring immediate entrance into production, particularly in the areas of mining, electric energy, metallurgy and chemistry. Measures have also been established for some highly technical equipment for organization of work in three shifts in the production sections of the particular aggregates.

Analysis of the investment program forecast for the first quarter of 1984 also brings out some lags in finalizing certain projects forecast to enter into operation during this period of time. In the great majority of cases, the lags have been due to certain organizational causes which refer to the activity of each brigade and contracting enterprise separately. Mainly, late arrival of certain documents, unsatisfactory organization of certain job sites and shortcomings in the supply with materials and equipment have been specific reasons for failure to fulfill the provisions for finalizing the particular projects.

Conclusions resulting from periodic analyses made at a large number of projects which are recording arrears have shown that serious reserves exist at each job site, ones which can and must be utilized more broadly with a view to recovering the lags and connecting up all the planned capacities to the economic circuit. Above all, the efforts of the factors involved in the investment process must be directed toward continuing to improve the activity of the construction-assembly organizations, particularly those which are recording arrears, toward more efficient use of the resources they have available, concentrating efforts on the priority projects, connecting the worker collectives to a greater extent with fulfillment of the investment plan and with placing the new capacities into operation within the schedules established.

At the same time, more and more we are feeling the need to improve the relationship of builders-beneficiaries by the latter's direct involvement in carrying out the assembly jobs in particular. Practical experience has shown that great opportunities exist to reduce the time it takes for jobs to be done (reaching up to one-third of the stock of available time) when the activity of cooperation and collaboration in the builder-beneficiary line takes place steadily, with the efficiency anticipated.

A condition for carrying out the investment projects under good conditions also is the correlation of the timetables for execution with that for delivery of the technological equipment. However, situations existed during the first quarter of the year where this requirement was not respected in its entirety as a result of the fact that some suppliers of equipment from the Ministry

of the Machine Building Industry and the Ministry of Machine Tool Industry, Electrical Engineering and Electronics recorded arrears, particularly toward the beneficiaries of investments belonging to the Ministry of the Chemical Industry, the Ministry of Electric Power and the Ministry of Mines. To a great extent this also explains the fact that a large number of capacities--which are at an advanced stage of completion--could not be finalized within the planned schedules. That is why more energetic actions are needed to provide the necessary equipment for assembly within the optimum time, for bringing back up to date the contract terms for the remaining equipment, depending on the current stage of the jobs.

Taking into account these important reserves, new measures in construction-assembly activity have been established for the following period, ones intended to provide for urgent recovery of arrears and firm inclusion in the timetables for execution. Among these we should mention the ones referring to growth in the responsibility of the construction units for providing the documents, construction materials and equipment efficiently; having the investment beneficiaries under state supervision take over certain jobs of a less technical nature and lower volume; at the beneficiary level, organizing special assembly teams or placing at the disposal of the builders with a view to speeding up the rate of assembly of equipment; speeding up the delivery of equipment to the job sites for assembly and for avoiding the formation of stocks of materials and providing steady nature for the jobs on each project and better correlation of the timetables for execution of investment projects with those for having the suppliers build the equipment.

The measures planned, appropriate supply of the job sites with equipment, favorable time for carrying out a diverse range of projects all are decisive factors which provide conditions needed for continuing to build all the planned capacities in the second quarter of the year and for recovering arrears on some projects so that the national economy benefits as fast as possible from their contribution.

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DECREE ON IMPROVING INTERNATIONAL AUTO TRANSPORT

Bucharest BULETINUL OFICIAL in Romanian Part I No 35, 21 Apr 84 pp 1, 2

[Council of State Decree No 143 of 19 April 1984 on Measures To Improve International Auto Transport]

[Text] The Council of State of the Socialist Republic of Romania decrees:

Article 1. International auto transport takes place on the basis of international conventions and agreements in which the Socialist Republic of Romania participates.

Article 2. International auto transport is carried out by the enterprises under the Auto Transport Central in the Ministry of Transportation and Telecommunications, the International Auto Transport Enterprise under the Ministry of Agriculture and the Food Industry and the "New Bucharest" Transport Enterprise under the Carpati Central Economic Office. In special cases, the Ministry of Transportation and Telecommunications may authorize having other units also carry out certain international auto transport.

Article 3. International auto transport takes place on the basis of annual contracts concluded between forwarders and beneficiaries in accordance with the regulations in effect, laid out by quarters, months and transport relations. A firm order for making means of auto transport available is presented at least 5 days before the transport is made.

In order to carry out transport which could not be foreseen, the order for making motor vehicles available is to be placed at least 10 days before the date that the goods are to be shipped.

For the purpose of avoiding traffic jams, the forwarding agents are to take action to deliver the goods for export at a steady rate.

Article 4. The Ministry of Transportation and Telecommunications and the Ministry of Foreign Trade and International Economic Cooperation, together with the ministries holding motor vehicles intended for international transport and the Carpati Central Economic Office coordinate international auto transport activity.

Article 5. Standards for distances covered by the route must fit into the standardized lengths of time for goods transport for foreign and domestic routes as provided in Appendices Nos 1 and 2.*

Article 6. The ministries holding an international auto transport fleet are to take permanent action for increasing the share of participation of the Romanian auto transport enterprises in the flow of international traffic.

Together with the activity of contracting for goods for export, the foreign trade enterprises are to provide for increasing the volume of products transported with Romanian motor vehicles.

Article 7. In order to improve the activity of international auto transport:

a) Making international transports with motor vehicles not filled to capacity, either by tonnage or by volume, according to the nature of the goods, is prohibited;

b) Advanced technologies are to be extended with a view to providing for mechanized loading and unloading and for rational use of the means of transport;

c) Forwarding agents for goods are to set up the loading fronts so that they fit into the standardized standing times for motor vehicles; standing-time taxes are to increase by up to 25 percent for exceeding the standardized times if it is the forwarding agent's fault;

d) Beneficiaries and transport units are to program the loading of motor vehicles so that having them reach their destination on days when there are restrictions for traffic and unloading of trucks is avoided to the maximum;

e) All measures are to be taken for technical preparation of the motor vehicles for international routes so that their operation without defects for the entire route is provided;

f) Clauses which provide for the efficient loading and unloading of the motor vehicles are to be provided in the transport contracts.

Article 8. The economic sections in the embassies of the Socialist Republic of Romania abroad are required to follow up on the flow of international auto transport and to take action to provide for loading with imported goods or in the foreign account on the return trip.

Article 9. The Ministry of Machine Building Industry and the Ministry of Transportation and Telecommunications are to insure improvement in the performances of motor vehicles and their adaptation to transporting various categories of goods.

* The appendices are sent to the institutions concerned.

Article 10. The ministries and other central organs which hold motor vehicles for international transport are to provide for the optimal distribution of the international auto transport units in Romania so that the distances to the loading areas are reduced to the minimum.

Article 11. The economic ministries are to take measures for specialization of the enterprises which have export tasks so that the domestic routes of the transports are minimal.

Article 12. The Ministry of Chemical Industry is take measures for supplying the means of international auto transport on the domestic route with fuel on a priority basis and for effectively providing full tanks when they leave the country.

Article 13. The Council of Ministers will seek and guide the ministries for firm application of the standards established by this decree.

Article 14. Appendices Nos 1 and 2 are an integral part of this decree.

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20 JUNE 1984